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Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

APR - 6 1992

In the Matter of )

Petition for Rulemaking to )  
Modify the Regulatory Treatment of )  
Comsat World Systems' Multi-Year )  
Fixed-Price Carrier-to-Carrier )  
Contract-Based Switched-Voice )  
Services )

RM-7913

Federal Communications Commission  
Office of the Secretary

COMMENTS OF  
IDB COMMUNICATIONS GROUP, INC.

IDB Communications Group, Inc. ("IDB") hereby submits its Comments in response to the Petition for Rulemaking ("Petition") filed by Communications Satellite Corporation ("Comsat") seeking to modify the regulatory treatment of Comsat's multi-year, fixed-price, carrier-to-carrier, contract-based switched voice services. Specifically, Comsat has requested that price-cap regulation be substituted for rate-of-return regulation with respect to Comsat's long-term international message telephone service ("IMTS") offerings.

IDB is deeply concerned that the price-cap regulation of long-term IMTS offerings will provide an incentive for Comsat to shift costs into other jurisdictional services, such as International Television and International Business Service, for which IDB is a major customer. IDB also submits that Comsat has not justified the public interest benefits of limited price-cap regulation. Finally, if price-cap regulation offers all the public interest benefits asserted by Comsat, IDB does not under-

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stand why Comsat has not sought price-cap regulation for all of its INTELSAT service offerings.

**A. Price-Cap Regulation Of Long-Term IMTS Services Will Create An Incentive To Shift Costs To Other Jurisdictional Services Governed By Rate-Of-Return Regulation.**

IDB is concerned about the potential adverse effects of Comsat's proposal on prices IDB must pay for the substantial amount of non-IMTS INTELSAT space segment services IDB must purchase from Comsat. Specifically, IDB is deeply concerned that the price-cap regulation of long-term IMTS offerings will provide an incentive for Comsat to shift costs into other jurisdictional services, including International Television service, International Business Service ("IBS"), and short-term IMTS, all of which would continue to be covered by rate-of-return regulation.

IDB is one of the largest, if not the largest, customers for Comsat's non-IMTS space segment services. IDB is a leading supplier of both International Television service and IBS using transponder capacity on INTELSAT satellites. In addition, IDB is a new entrant into the IMTS market. IDB plans to focus on smaller, underserved markets -- markets which are not now, and will not in the foreseeable future be, served by undersea fiber optic cables. As a new entrant, and as a service provider on low density routes, IDB anticipates purchasing INTELSAT capacity from Comsat pursuant to short-term tariff rates, rather than long-term contract rates for which Comsat seeks price-cap regulation.

Price-cap regulation of long-term IMTS offerings combined with traditional rate-of-return regulation for non-IMTS and short-term IMTS offerings creates a strong incentive to shift costs from the price-cap offerings to the rate-of-return offerings. If Comsat is able to reduce its costs of providing long-term IMTS services, it will be able to increase its profits under price-cap regulation. By contrast, an increase in the costs of providing non-IMTS services can simply be passed on to the customer, without any adverse effect on Comsat's profitability under rate-of-return regulation.<sup>1/</sup>

IDB does not believe that Comsat has made an adequate showing that cross-subsidization will not occur. Comsat asserts that cross-subsidization could not occur for IBS or TV because these services are fully competitive. Petition at 19. International Television, IBS, and thin-route IMTS services are dominated by INTELSAT, and are not now, and will not in the foreseeable future be, competitive.

INTELSAT carries virtually all international television transmissions. Separate satellite systems do not provide effective competition. At present, there is but one separate satel-

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<sup>1/</sup> In light of the general decline in satellite transponder rates, perhaps the more likely scenario would be one in which reduced costs for non-IMTS offerings are not passed through, or not fully passed through, to non-IMTS customers, but are instead shifted to reflect artificially lower costs of providing IMTS services. Thus, it will not be enough for Comsat to assert that prices for non-IMTS services will not be raised. The real question is whether prices for non-IMTS services would have been reduced, or further reduced, but for the disparate regulation of IMTS compared to non-IMTS offerings.

lite system in operation -- PAS-1 -- and it offers only a limited number of transponders with a limited scope of coverage, namely, Ku-band service between the U.S. and Northern Europe, and C-band service between the southern U.S. and South America. Fiber optic service is not economical or practical for international television service, particularly for point-to-multipoint applications.

Separate satellite systems do not provide adequate competition for private line IBS services or for many IMTS services. As noted above, there is but one separate satellite system, and it offers only a limited number of transponders with a limited scope of coverage for private line service. At present, separate satellite systems are prohibited from providing switched IMTS service, except for an insignificant 100 circuits.

Fiber optic cables do not provide service to most countries of the world. Comsat notes that as of 1990, 21 nations, accounting for 60% of U.S. international traffic, were reachable by fiber optic cable. Petition at 9. By 1994, Comsat expects 36 nations, accounting for 70% of U.S. international traffic, to be reachable by fiber optic cable. Even accepting Comsat's figures, in 1994, well over 100 nations, accounting for 30% of U.S. international traffic, will not be reachable by fiber optic cable. The only way to provide service to this huge market of underserved countries is by means of INTELSAT. Clearly, then, there is not effective competition on these routes. Consequently, there is no competitive market incentive to deter Comsat

from shifting costs from its high volume routes on which it competes with fiber optic cables, to low density routes on which there is no effective competition. As noted above, IDB plans to provide IMTS service on some of these low density routes, but must rely on low volume, short-term tariff rates -- rates which would not be governed by price-cap regulation pursuant to Comsat's proposal.

**B. Comsat Has Not Justified The Public Interest Benefits Of Price-Cap Regulation For Long-Term IMTS Services.**

Comsat's Petition does not justify the public interest benefits of price-cap regulation for long-term IMTS offerings. Comsat offers a variety of reasons why price-cap regulation should be adopted, but none of these reasons is supported with empirical evidence. Even the anecdotal evidence provided by Comsat is often inconsistent or vague.

Comsat asserts that price-cap regulation will "substitute positive economic incentives for the distorted incentives that are inherent in traditional rate-base regulation ...." Petition at 6. Further, Comsat asserts that "under [price-cap] regulation, carriers are encouraged to control expenses and to tailor capital investments to meet user requirements." Petition at 15. IDB submits that if there is adequate competition in the marketplace -- as Comsat repeatedly claims -- then Comsat should already have more than enough incentive to control its expenses and tailor its capital investments. Comsat fails to explain how price-cap regulation will encourage Comsat to control its

expenses to a greater extent than competition and good management would control such expenses regardless of the regulatory regimen.

Comsat next asserts that price-cap regulation will enable it to "offer low, levelized rates in the face of highly cyclical costs ...." Petition at 6. Again, Comsat fails to explain how price-cap regulation will make any difference from the current regulatory regimen. Indeed, Comsat itself states that it already offers "levelized long-term fixed prices agreed to in carrier-to-carrier contracts." Petition at 16.

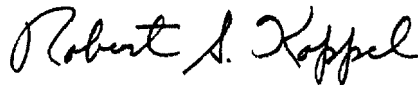
Third, Comsat asserts that price-cap regulation "will preserve the integrity of the market-based relationships between Comsat and its carrier customers." Petition at 6. This is a rather vague public interest argument. More importantly, it appears to IDB and is repeatedly confirmed by Comsat, that Comsat's relationship with its long-term carrier customers for IMTS offerings is already very much "market-based." According to Comsat itself, the ownership of fiber optic cables by AT&T, MCI and Sprint gives these carriers "enormous bargaining power" (Petition at 9) and "tremendous leverage over Comsat" (Petition at 17). Once more, Comsat fails to explain why price-cap regulation is necessary or desirable to "preserve ... market-based relationships" that already exist.

Finally, IDB is perplexed by Comsat's request for price-cap regulation only for long-term IMTS offerings. If price-cap regulation offers so many public interest benefits that are not offset by countervailing public policy considerations,

then why has Comsat not sought price-cap regulation for all of its INTELSAT service offerings?

WHEREFORE, IDB Communications Group, Inc. is concerned about the implications of Comsat's proposal that long-term IMTS offerings be governed by price-cap regulation, while all other Comsat offerings of INTELSAT space segment continue to be governed by rate-of-return regulation. IDB also submits that Comsat has not justified the public interest benefits of disparate price-cap regulation. IDB encourages the Commission to review these issues carefully.

Respectfully submitted,



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April 6, 1992

CERTIFICATE OF SERVICE

I, Susanne Deljoubar, do hereby certify that I have this 6th day of April, sent by first-class U.S. mail, postage prepaid, copies of the foregoing "Comments of IDB Communications Group, Inc." to the following:

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